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ABSTRACT

Early retirement plans (ERPs) have recently been considered and implemented at a number of universities as a means to address their need to contain costs while simultaneously generating new ideas and energy within the institution through the revitalization of faculty ranks. This endorsement of ERPs by university administrators, however, is occurring without sufficient information about the impact of such plans in financial and academic terms. This paper addresses this deficiency and identifies four questions that must be answered to ensure that the university selected ERP is based on more than conjecture. These questions are: (1) How does increased flexibility affect provincial allocation of monies to universities and thus their ability to operate comprehensive programs? (2) Where are the universities spending their newly acquired flexibility dollars? (3) What are the academic implications of this allocation of flexibility dollars? (4) Is the quality of the applicant pool at least comparable to that of the group of retiring faculty? Institutions of higher education that answer these questions first, before entering into an ERP, will be better able to fit the new ERP with the institutional mandate. Knowing that an ERP results in increased flexibility dollars is an insufficient reason for its adoption. Contains 12 references. (Author/GLR)

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The Impact of Universities' ERPs?

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Abstract

Early retirement plans (ERP) have recently been considered and implemented at a number of universities as a means to address their need to contain costs well at the same time generate new ideas and energy within the institution. This endorsement of ERP by university administrators however is occurring without sufficient information about the impact of such plans in financial and academic terms. This paper speaks to this deficiency and identifies four questions that must be addressed to ensure that the university selected early retirement plan is based on more than conjecture. In proposing the four questions data that would assist in the formulation of answers are suggested.

The Impact of Universities' ERPs?

At the beginning of the 80's, Weiler (1981) claimed that "to produce the flexibility to meet ... unanticipated demands for new faculty and to provide more opportunities for promotion of nontenured faculty in an area of declining faculty size, [higher education] institutions will consider policies to increase the turnover in their tenured faculty positions" (p. 129). Weiler was partially right in that higher education institutions have turned to address the question of faculty turnover. However, this shift in attention has not been so much as to address demands for new faculty as a response to unforeseen inflexibility of resources due to an upsetting of the previously predictable retirement of faculty.

> The re-examination of faculty benefits and retirement plans has become an important issue to institutions of higher education as a result of the combined effects of the 1986 tax laws, the 1986 Revisions to the ADEA (uncapping of retirement), and the new non-discrimination rules covering retirement and benefit plans in most colleges and universities. (Hanson and Merrill, 1987, p.1)

In Canada, universities are having their policy of compulsory retirement successfully challenged. The

precedent setting case being the McIntyre v. The University of Manitoba case. Here the university's compulsory retirement policy was found discriminatory and thus was no longer enforceable. At this time, the Canadian university community awaits a ruling of the Supreme Court of Canada that will resolve or at least give definitive direction to the issue of compulsory retirement.

Despite this trend to null and void policies of compulsory retirement, faculty members do eventually retire. "[The Association of Universities and Colleges of Canada] estimated that between 25 and 30 per cent of today's professors -- as many as 11,655 people -- will have to be replaced in the next decade as academics hired during the expansion of the 1960s and early 1970s start to retire" (Polanyi, 1989, p. A14). It is the new uncertainity of the when that troubles university administrators.

For the time being, universities see the adoption of early retirement plans (ERP) the way out of their problem. ERP by definition are designed to facilitate and encourage faculty retirement at an earlier age than they would normally do so. Or, as Chronister and Trainer (1985) put it,

> Early retirement programs are institutional initiatives designed to provide financial and other incentives to facilitate the voluntary retirement of faculty prior to regular or

> mandatory ages without creating serious financial consequences for the faculty who choose to participate, or for the institution providing the program. (p. 191)

A presumption of such plans is that

> the institution's total output (however measured) would increase if at least some older faculty were replaced by newly hired young faculty members. In particular, if these older faculty could be replaced at no net cost to the institution, then both total and average output would be increased. (Weiler, 1981, p. 133)

Consequently,

> Early retirement programs are potentially useful tools to encourage turnover and revitalize faculty ranks, providing flexibility in program staffing and opening opportunities for young academics, ... (Mitchell, 1981, p. 1)

The endorsement of early retirement by university administrators and their encouragement of faculty to pursue such action however is occurring without sufficient analyses as to the <u>impact</u> that early retirement has for the operation of the institution. For example, Hanson and Merrill (1987) found that only "sixteen [of the 36 higher education institutions surveyed] were able to provide an evaluation of the financial savings or extra costs associated with using their early retirement plans" (p. 52). This is not to imply that no preliminary projections were established prior to the endorsement of early retirement by a given institution. Analyses of the 'actual' impact of early

retirement plans nevertheless have been limited. This limitation most strongly reflected in Renner's (1988) contention that:

> Current early retirement programs are simply wasteful of money. First, they incur an unnecessary cost by purchasing flexibility that would occur anyway over the critical period, but without helping to correct the fundamental internal structural problem. (p. 17)

In order to address the actual impact of existing ERP one needs to, at least, ask the following four questions:

1. How does increase flexibility affect provincial allocation of monies to universities and thus their ability to operate comprehensive programs?

2. Where are the universities spending their newly acquired flexibility dollars?

3. What are the academic implications of this allocation of flexibility dollars?

4. Is the quality of the applicant pool at least comparable to that of the group of retiring faculty?

How does increase flexibility affect provincial allocation of monies to universities and thus their ability to operate comprehensive programs? In a recent study of [early retirement] programs in 51 public institutions, Chronister and Kepple (1987) found that nearly 60 per cent of the incentive offerings were

beneficial to the institution as opposed to the individual. Because of this beneficial payoff to the institution in having faculty opt for early retirement, institutions must consider how this payoff is viewed and accounted for by external funding agencies such as the provincial government. To date, universities' administrators give little, if any, credence to the suggestion that there is any linkage between funds received by the provincial government (the university major source of basic operating grants) and the encouraged early retirement of faculty. This stance is not surprising given that the funding formulas used by the provincial government do not include the early retirement of faculty as a variable. The observation of the absence of a formalized linkage between the two would thus tend to lead one to the conclusion that university administrators have reached. However, if one were to take a step behind the scenes one could easily generate reasons why such a conclusion should be questioned. Recall that a major motivating factor for the endorsement of early faculty retirement by university administrators has been the unforeseen inflexibility of resources due to faculty continuing their employment beyond the normal retirement age in combination with the university required to change in a more financially static environment. A financially

static environment is also true in respects of the environment that the provincial government must operate within. Therefore, although the provincial funding mechanism for universities is not directly affected by the early retirement of faculty, indirectly the linkage may become very strong in terms of the total dollars the provincial government allocates for the purpose of financing universities. If the total available dollars decrease than the funding formulas will and must be adjusted. The consequence is obviously a restriction on the ability of universities to continue its academic mandate to at least the same extent as was possible in the past. This scenario must be considered by universities for it will be at the provincial level as they come to terms with their own financially static environment.

Data that university administrators will need for this consideration can in part be obtain by investigating whether their early retirement plan is having the same or a greater or a lesser financial cost upon their institution than was initially anticipated. Once securing this information any possible shifts in funds received from external sources must be examined for possible parallelism to the university enacted early retirement plan. If a parallelism is established then there is reason to be concern about the actuality

of this parallelism. For example, is the savings or added expense from early retirement less or more than what the initial figures would indicate.

Where are the universities spending their newly acquired flexibility dollars? Universities too often will endorse the status quo by ensuring the faculties that have members exercise their right of early retirement the faculty line position plus resources that are attached to that line. This assurance is usually accompanied by no accountability on the part of the faculty that a reexamination of program demands will be undertaken prior to the use of such resources. Academics by nature and Deans for justification of their faculty existence will always argue their indepensibility to the university community. Nevertheless, "shifts in enrollment patterns among programs will result in some areas of instruction having too many faculty and others having too few, a situation that calls for greater flexibility in staffing" (Mitchell, 1981, p. 1). Therefore, unless university administrators adopt a more accountable approach to the use of flexibility dollars generated by the early retirement of faculty, their early retirement plan could hinder, as opposed to enhance, its course offerings and research activities.

Therefore, the minimal information that must be secured to ensure that the plan in no way acts as a hinderance is the number of existing and new faculty positions continued and established as a result of dollars generated by early retirement. Also, the discipline areas that these positions are found in relation to the needs and demands of the various disciplines must be determined.

What are the academic implications of this allocation of flexibility dollars? Too often, the linkage to the financial condition of the institution is the institutional factor considered. The consideration under this circumstance ranges within the following spectum:

> Most program purposes, or objectives, can be identified as falling somewhere along a continuum which ranges from a need to reduce staff and/or reduce financial obligations (reduction demands) at one end, to an institutional need to create faculty turnover without reducing the number of positions or financial obligations (the flexibility objective), at the other end of the continuum. (Chronister and Trainer, 1985, pp. 191-192)

Yet, the reality is that the academic mandate of the university is under seize. Henchey (1987) states:

> As student populations shift from one program to another, university planners have difficulty providing appropriate teaching services: some departments and faculties become overstaffed while others are short of teachers but have little prospect of

> expanding in the face of budget restrictions. (pp. 57-58)

The experience of universities to date has been that ERP will generate the freeing up of once committed funds. However, by only working within ERP from the financial perspective, universities are unnecessarily restricting their mobilization in coming to grip with other related challenges. For example, "to find adequate resources and to define their function in a way that justifies these resources without undermining their institutional integrity" (Henchey, 1987, p. 58).

What is then needed is a data set which enables the administrator to knowledgeably speak to the effect that early retirement has had on the actual goals and objectives of the institution and its individual faculties as well as the achievability of the actual goals and objectives. Furthermore, the administrator needs to be able to identify those areas in which critical shortages might arise or become more acute in the event that faculty opted for early retirement so that an appropriate strategy can be developed. In conjunction with this identification, the administrator must be able to specify the programs that have been discontinued or restructured as a result of the early retirement of faculty.

Is the quality of the applicant pool at least comparable to that of the group of retiring faculty? According to Wallfesh (1978, p. 23), "those entering the labor force will have different abilities and different aspirations from the present workers." Too often there is operating the assumption that with age there is a decrease in instructional quality therefore the hiring of new young faculty will result in improved quality of instruction. Oftentimes, this relationship at a graduate level of program delivery could justly be challenged. The challenge is made by Gordus (1980):

> Conventional wisdom in management may have suggested early retirement as a solution to older unproductive workers in the past, but the actual organizational results of continuing early retirement across a wide range of organizations are not known. ... Are those younger workers actually replacing older workers? Are they actually more productive? (p. 71)

Also, according to Patton (1979, p. 9), "researchers have had little success finding an equation that describes the relation between productivity and age." Referring to the work of Bayer and Dutton, Patton state that their conclusion was that "career age is a poor predictor of research and other professional activity" (p. 9). One thus needs to heed the cautions of Jenny (1974) and Gordus (1980):

> To the extent to which ERt [early retirement] is a more attractive and feasible alternative to personnel with adequate financial means for retirement, the practice often means

> today that the most successful members of the teaching and administrative staff may be the ones who can afford to pick up the option. When this happens, the interest of the student may not be well served. (1974, p.10)

> If incentives to retire early are sufficiently attractive, many of those who choose to retire early will be those whose skills are valuable. (1980, p.70)

Consequently, it is imperative that the administrator has a realistic conception of the potential there is to fill whatever vacancies that would be created as a result of early retirement. In addition, in what capacity the early retiree was most valuable to the institution must be known for it is this defined competence that must determine the parameters of the search for the new incumbent.

The opportunity to more fully capitalize on ERP is not lost. As Mitchell (1981) states,

> Early retirement can be viewed as an academic personnel policy to free faculty ranks so that persons with needed skills can be recruited. In this vein, early retirement can be used by the administration to shift resources to needed areas, to new or expanding fields, or to programs that need rebuilding. By encouraging the early retirement of academics in out-of-demand fields, an institution can gain a few faculty positions to reallocate elsewhere. (pp.9-10)

The motivating factors for an endorsement of early retirement plans by university administrators for the time are strong but as the aging concern dissipates the

potential of ERP will lose priority and other ad hoc mechanisms will be put in place to address the next pressing financial concern. University administrators must thus turn their attention to the noted four questions. On the basis of their institutional answers to these questions will they then be in the appropriate position to speak to the goodness of fit of their ERP and their institutional mandate. Knowing that ERP results in increased flexibility dollars is an insufficient reason for its adoption.

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